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FISCAL IMPACT STATEMENT

LS 7826 **NOTE PREPARED:** Feb 20, 2007
BILL NUMBER: HB 1774 **BILL AMENDED:** Feb 19, 2007

SUBJECT: Regional Development Authorities.

FIRST AUTHOR: Rep. Van Haaften **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill has the following provisions:

Regional Development Authority Established: The bill authorizes the establishment of not more than two regional development authorities (development authorities) in each economic growth region designated by the Department of Workforce Development. It authorizes counties and second class cities to establish the development authorities.

Regional Development Authority Membership: It specifies that if a county becomes a member of a development authority, each municipality in the county is also a member of the development authority. The bill also provides that a county may be a member of a development authority only if the county is contiguous to at least one other county that is a member of the development authority. The bill provides that a second class city may be a member of a development authority only if the county in which the second class city is located is contiguous to at least one other county that is a member of the development authority.

Regional Development Authority Governance: The bill specifies that a development authority is a separate body corporate and politic. The bill also provides that a development authority is governed by a board consisting of one individual appointed by the executive of each county and each second class city that is a member of the development authority. It provides that if a development authority receives or will receive an appropriation, grant, or distribution of money from the state, the development board may adopt a resolution to add one or more members appointed by the Governor to the development board.

Regional Development Authority Finance: The bill requires each county and each municipality that is a member of a development authority to pay annually to the development authority the amount that would be distributed to the county and the municipality as certified distributions of County Economic Development Income Tax (CEDIT) revenue raised from a tax rate of 0.05% in the county. It provides that if a county is a member of a development authority, the county may impose an additional County Economic Development Income Tax at a rate of 0.05%.

County and Municipality Payments: The bill requires revenue from the additional tax to be used to satisfy the obligations of the county and municipalities to make payments to the development authority. It provides that, except in a county in which the additional County Economic Development Income Tax has been imposed, a county's or municipality's required payments to the development authority may be made from any local revenue (other than property tax revenue) of the county or municipality, including excise tax revenue, income tax revenue, local option tax revenue, riverboat tax revenue, distributions, or incentive payments, or money deposited in the county's or municipality's local major moves construction fund.

Indiana Finance Authority: The bill authorizes the Indiana Finance Authority to issue bonds and use the proceeds of the bonds to acquire any obligations issued by the development authority.

Terms of Membership: The bill provides that as county or second class city shall be a member of the development authority for five years after the date the county or second class city becomes a member the development authority. It specifies that at least 12 months and not more than 18 months before the end of a five year period, the fiscal body of a county or second class city that is a member of a development authority must adopt a resolution that either commits the county or second class city to an additional five years as a member of the development authority or withdraws the county or second class city from membership in the development authority.

Regional Development Authority Responsibilities: The bill authorizes a development authority to:

(1) make loans, loan guarantees, and grants to or on behalf of a county, a municipality, a commuter transportation district, an airport authority, an airport development authority, and a regional transportation authority;
(2) issue bonds to the Indiana finance authority;
(3) lease land or projects to a commuter transportation district, an airport authority, an airport development authority, or a regional transportation authority;
(4) use the development authority's funds to match federal grants; and
(5) take other actions to carry out its purposes.

Project Requirements: The bill requires projects funded by a development authority to be of regional importance. It requires a development authority to comply with the common construction wage law, the public purchasing laws, the public works laws, and any applicable federal bidding statutes and regulations. It also requires a political subdivision that receives a loan, grant, or other financial assistance from the development authority to comply with applicable federal, state, and local public purchasing and bidding laws and regulations.

Oversight: It requires a development authority to submit to the Budget Committee and to the Director of the Office of Management and Budget for approval a comprehensive strategic development plan that includes detailed information concerning:

(1) the proposed air, rail, transportation, and other economic development projects to be undertaken or financed by the development authority; and
(2) the timelines, budgets, returns on investment, projected need for ongoing subsidies, and projected federal matching funds for each project.

Reporting: It requires a development authority to issue an annual report to the Legislative Council, the Budget Committee, and the Governor concerning the operations and activities of the development authority during the preceding state fiscal year.

Joint Agreements: The bill authorizes a development authority to enter into an agreement to jointly equip, own, lease, and finance projects and facilities or otherwise carry out the purposes of the development authority.

Other Requirements: The bill requires a development authority to:

(1) assist in the coordination of local efforts concerning airport development projects and transportation projects;
(2) assist a commuter transportation district and an airport authority in coordinating regional transportation and economic development efforts; and
(3) fund various projects and facilities, including intermodal transportation projects and facilities and regional trails and greenways.

Effective Date: Upon passage.

Explanation of State Expenditures: *Indiana Finance Authority:* The bill adds to the authority of the Indiana Finance Authority (IFA) to issue bonds and use the proceeds to acquire other obligations. In this case, the IFA could acquire any obligation of a regional development authority. To the extent that financial markets would have a favorable view of the IFA acquiring obligations of regional development authorities, this provision could have positive fiscal impact on regional development authorities through interest rate savings or access to bond markets.

Background for the Indiana Finance Authority: The IFA is a body politic and separate from the state, but providing an essential state function. The Indiana Constitution does not allow the state to undertake debt except in certain circumstance. The General Assembly has established the IFA to undertake debt financing for governmental purposes.

Treasurer of State: If a county or municipality of a regional development authority fails to transfer the amounts required and the regional development authority has bonds outstanding, the State Treasurer will reduce the next distribution of property tax replacement credits and instead pay the amount withheld to the regional development authority. To the extent that a county or municipality would fail to transfer amounts owed, accounting costs for the Treasurer of State would increase minimally.

General Assembly: Under the bill, if a regional development authority has bonds outstanding that are not secured by a lease, the General Assembly would convent to not reduce the amount required to be transferred as established by the bill. Further, the General Assembly convenants under the bill that it will not repeal the act or impair the rights of bond owners secured by lease rentals or pledges of revenues.

Explanation of State Revenues: *Taxation:* All property owned by a development authority, the revenue of a development authority, and the bonds issued by the development authority are exempt from taxation in Indiana, except for the financial institutions tax or inheritance tax.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:* The bill provides a mechanism for funding development projects through regional development authorities. The fiscal impact of the development authorities will depend on the project undertaken, financing terms for the project, and the effectiveness of project management by the regional development authority.

Background on Regional Development Authority: Among its duties, a regional development authority may finance, improve, construct, reconstruct, renovate, purchase, lease acquire, and equip land and projects of regional importance. The development authority may lease land or a project to an eligible political subdivision. Also, the development authority may finance and construct additional improvements, construct or reconstruct highways, roads, and bridges; acquire land from a political subdivision and lease back the land or project; acquire a project from a political subdivision to fund or refund indebtedness on the project; make loans, loan guarantees, and grants on behalf of commuter transportation districts, an airport authority, or a regional transportation authority. A regional development authority may provide funding to assist a railroad providing commuter services, an airport authority, intermodal transportation projects, regional trails and greenways projects, and economic development projects.

Development Authority Fund: Under the bill, a regional development authority establishes and administers a development authority fund consisting of amounts transferred from counties and municipalities that are members of the development authority; appropriations, grants, or other distributions from the state; money from the federal government; and gifts, contributions, donations, and private grants. The fund may be used to secure bonds, but the development authority must separate the fund into two accounts.

Bonding: The regional development authority may issue bonds to obtain money to pay the costs of acquiring real or personal property; acquiring, constructing, improving, reconstructing, or renovating projects; funding or refunding bonds issued. Bonds are payable from the revenues from lease of the project or insurance proceeds and revenue received by the regional development authority in the development authority fund. The terms of the bonds are set out by the development authority board in a resolution approving the bonds and the bonds must mature within 40 years. The bonds may be secured by a trust indenture between the development authority and a corporate trustee.

Leasing: The regional development authority may enter into a lease of land or a project with an eligible political subdivision, if the political subdivision finds that the lease rental is fair and reasonable. The term of the lease may not exceed 40 years and payments may not be required prior to the project being complete and ready for occupancy or use. The lease may allow for an additional term equal to or less than the original term and it must contain an option for the political subdivision to purchase the project.

Reporting: Before April 1 of each year, the regional development authority prepares a report for the Legislative Council, Budget Committee, and the Governor concerning its operations and activities. The development authority also prepares a comprehensive strategic development plan and submits the plan by January 1 of year after the development authority is established to the Budget Committee for review and the Director of the Office of Management and Budget for approval. The Office of Management and Budget contracts for an annual financial audit of each development authority with the development authority paying the costs of audit by a certified public accountant. The State Board of Accounts may conduct an audit at any time with the development authority paying the costs of the audit.

Regional Development Authority Finance: Under this proposal, a county that is a member of a development authority may impose an additional CEDIT rate of 0.05%. The CEDIT rate allowed by this bill would generate an estimated $61 M in CY 2008, $62 M in CY 2009, and $64 M in CY 2010 if all counties were to impose the additional rate. All proceeds would be deposited into the county regional development authority fund. The actual fiscal impact depends on local action.

State Agencies Affected: Indiana Finance Authority; Budget Committee; Office of Management and Budget; Governor; Treasurer of State; State Board of Accounts.

Local Agencies Affected: Counties and second class cities establishing regional development authorities.

Information Sources:

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